

The purpose of the following valuation is to estimate the value of the corporation's stock on the basis of the expected earnings (the "cash flow method") and to give an outline of the pay-back period with regard to the investment - both on the basis of the assumptions detailed below:

NPV of the future cash flow

NPV of cash flow year	1- 5	26,989
NPV of cash flow year	6- 7	8,220
NPV of cash flow year	11-	0
NPV of cash flow year	16-	0
NPV of synergies	50%	3,872
Total value		39,081

Equity/goodwill

Required equity	10,000
Goodwill (stand-alone)	25,208
Goodwill from synergies	3,872
Cost	39,081

Future cash flow assumptions:

The budgeted cash flow on which the above valuation is based is presented in Diagram 3.

The discount rate is estimated as shown under "Re 3A".

The duration (in years) of the corporation is estimated on the basis of the analysis of duration in Tables 1-5:

The duration (in years) with regard to synergies is set at:

The seller's share of synergies is set at:

Equity in DKK thousands. Reflecting the estimated equity necessary for the future operations:

In the budget, depreciation/amortization is set to equal the investments, assuming that the depreciation/amortization will, in the long term, match the investments required to maintain the existing productive equipment (in DKK'000):

Growth/rate of inflation:

Tax rate:

The acquisition is financed 100% through loan financing at an after-tax rate of:

- 12%
- 7
- 4
- 50%
- 10,000
- 1200
- 3%
- 32%
- 5,1%

Diagram 1

Future earnings:												
Year	Realized	Refined ¹¹	Budget ¹²	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Net sales	97,638	135,307	137,707	141,838	146,093	150,476	154,990	159,640	164,429	169,362	174,443	
Cost of sales/cost of production	73,117	106,518	109,534	112,820	116,205	119,691	123,281	126,980	130,789	134,713	138,754	
Gross profit	24,521	28,789	28,173	29,018	29,889	30,785	31,709	32,660	33,640	34,649	35,689	0
Selling expenses	8,049	6,539	6,866	7,072	7,284	7,503	7,728	7,960	8,198	8,444	8,698	
Administrative expenses	6,694	7,732	8,119	8,363	8,613	8,872	9,138	9,412	9,695	9,985	10,285	
Staff costs, etc.	9,778	14,518	13,188	13,584	13,991	14,411	14,843	15,289	15,747	16,220	16,706	
Income/loss before deprec./amort.	850	1,178	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	
Depreciation/amort.=Investments ¹⁴	8,928	13,340	11,988	12,384	12,791	13,211	13,643	14,089	14,547	15,020	15,506	
Income/loss before financing	(1,790)	(1,767)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	
Net financial income/expenses	7,138	11,573	10,288	10,684	11,091	11,511	11,943	12,389	12,847	13,320	13,806	
Pre-tax income		3,703	3,292	3,419	3,549	3,683	3,822	3,964	4,111	4,262	4,418	
Tax for the year												
Adjusted op. income/loss/cash flow	7,138	7,870	6,996	7,265	7,542	7,827	8,121	8,424	8,736	9,057	9,388	

Diagram 2

Adjustment, resulting from new ownership structure

A. "Saved expenses":									
-rent/overheads	0	0	0	0	0	0	0	0	0
-management expenses	0	0	0	0	0	0	0	0	0
- administrative expenses	100	103	106	109	113				
- selling expenses	0	0	0	0	0				
Total	100	103	106	109	113				
B. "Additional expenses":									
-rent/overheads	0	0	0	0	0				
-management expenses	0	0	0	0	0				
-administrative/selling expenses	0	0	0	0	0				
Total	0	0	0	0	0				
C. Additional earnings from synergies:									
- image synergies	500	515	530	546	563				
- additional sales	1,000	1,030	1,061	1,093	1,126				
- purchase synergies	2,000	2,060	2,122	2,185	2,251				
- financing	0	0	0	0	0				
Total	3,500	3,605	3,713	3,825	3,939				
Total net adjustment	3,600	3,708	3,819	3,934	4,082				
Estimated tax on net adjustment	1,152	1,187	1,222	1,259	1,297				
Net adjustment after tax	2,448	2,521	2,597	2,675	2,785				

¹¹ Realized figures, latest acc. year

¹² Current year budget

Diagram 3

<u>Pay-back period:</u>										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year	1	2	3	4	5	6	7	8	9	10
Investment, beg. of 2000	(39,081)									
Interest on investment after tax, beg. of year	0	(1,993)	(1,613)	(1,196)	(740)	(242)	300	745	1,228	1,753
Cash flow after tax/distribution, beg. of year		9,444	9,786	10,139	10,502	10,877	8,424	8,736	9,057	9,388
Year's net cash flow, beg. of year	(39,081)	7,451	8,173	8,943	9,762	10,634	8,724	9,481	10,286	11,141
Year's net cash flow as a % of initial investment		0	0	0	0	0	0	0	0	0
Residual debt on "investment loan"	(39,081)	(31,630)	(23,457)	(14,514)	(4,752)	5,882	14,607	24,088	34,373	45,515
NPV of the year's net cash flow	(39,081)	6,652	6,516	6,365	6,204	6,034	4,420	4,289	4,154	4,018
Pay-back of investment at current value	(39,081)	(32,428)	(25,913)	(19,547)	(13,343)	(7,309)	(2,889)	1,400	5,554	9,571

Assumptions for the above pay-back period:

NPV of cash flow calculated on the basis of the above.

Diagram 4

Table 1. The corporation's products			
a) Classification of products by life stages (the Boston matrix):		No	Score
Start-up stage (question marks):	high growth and low market share		0
Growth stage (stars):	high growth and high market share		0
Ripening stage (cash cows):	low growth and high market share	4	8
Ageing stage (dogs):	low growth and low market share		0
Total		4	8

b) Classification of products by their life in general: (separately entered)	6	Yr/points
------------------------------------------------------------------------------	---	-----------

c) Classification of products by business activity/segment:		(tick off as appropriate)			
Manufacturing business/segment		Yes	Neutral	No	Score
Does the corporation develop new products?		X			5
Does the corporation have its own registered trademarks?				X	-10
Does the corporation have any patent(s)?				X	-10
Are the products brands?		X			10
Are the products difficult to replace?			X		0
Are the products environmentally sound?		X			5
Has the corporation set up good quality control procedures?		X			5
Total (max 50)					5
Commercial trading business/segment					
Does the corporation develop new products?					0
Does the corporation have its own registered trademarks?					0
Are the products the producer's trademark?					0
Are the products brands?					0
Has allowance been made for all risks (supplier agreements)?					0
Has allowance been made for all risks (agency agreements)?					0
Is there "value added" to the concept (advice, service, etc.)?					0
Total (max 50)					0
Service business/segment					
Does the corporation develop new concepts?					0
Have the concepts been registered?					0
Have the concepts been patented?					0
Are the concepts brands?					-10
Is the quality level of the concept/service high?					0
Does the corporation provide good guarantees for its services?					0
Is there "value added" to the concept (advice, service, etc.)?					0
Total (max 50)					0
Total					5

Product analysis		8
Boston matrix		2
General life of the products		5
Of the above 3 business activities, this corporation has		1
Total (max 80 points)		15

Table 1

Table 2. The corporation's market position		(tick off as appropriate)		
a) Customers	Yes	Neutral	No	Score
Does the corporation have a large spread of customers?	X			3.68
Is customer loyalty related to the brand?	X			3.68
Does the corporation offer good customer service?	X			3.68
Does the corporation perform customer satisfaction surveys?	X			3.68
Does the corporation have fieldwork skills?	X			3.68
Has the corporation adopted a good marketing strategy?		X		0
Does the corporation have a broad customer segment?	X			3.68
Does the corporation apply Customer Relation Management systems?			X	-3.68
Does the corporation apply Key Account Management systems?			X	-3.68
b) Suppliers				
Does the corporation have a reasonable spread of suppliers?		X		0
Has the corporation entered into good supplier agreements?	X			3.68
Is it possible for the corporation to change suppliers quickly?		X		0
Do the suppliers enjoy a good reputation/image/brand?		X		0
Do the suppliers maintain a good ethical standard?		X		0
c) Internationalization				
Does the corporation market its products in other states/countries?			X	-3.68
May the products be marketed in other states/countries?		X		0
d) Market conditions				
Has the corporation gained any competitive edge?	X			3.68
Are new players barred from entering the market?		X		0
Is the market growing?		X		0
Is the market cyclically neutral?			X	-3.68
e) Profitability (by reference to the 3 latest fiscal periods)				
Do sales per employee exceed DKK 1.0 million?	X			5
Does the average sales growth exceed the rate of inflation?		X		0
Total (a-e) (max 80 points)				20

Table 2

Table 3. The corporation's productive equipment				
	Yes	Neutral	No	Score
a) Machinery and operating equipment				
Is the productive equipment technologically up-to-date?		X		0
Is the degree of automation high?		X		0
Are investments made on a current basis?	X			4
Is the productive equipment maintained on an ongoing basis?		X		0
Is there any idle productive capacity?			X	-4
Is the productive equipment capable of quick change?	X			4
Can the production lead time be increased?	X			4
b) Buildings/properties/leases				
Is the repair condition of the buildings good?			X	-1
Are there any extension possibilities?	X			4
Are there any alternative applications?		X		0
Is the building situated well relative to the infrastructure?	X			4
May the building/lease be vacated without losses?		X		0
c) IT				
Is IT applied for production management purposes?	X			4
Is IT applied for administrative management purposes?	X			4
Is the corporation's IT system up-to-date?	X			4
Does the corporation use the Internet for marketing purposes?	X			4
d) Environmental/ethical standards				
Are the products environmentally sound?	X			4
Has the corporation obtained environmental approval?		X		0
Is the corporation's environmental consciousness part of the brand?		X		0
Does the corporation maintain a high ethical standard?		X		0
Total (a-d) (max 80 points)				32

Table 3

Table 4. The corporation's human resources				Low	Average	High
a) Average age: < 30 yrs=Low, 30-50 yrs=Average, >50 yrs=High					X	
b) Average seniority: < 5 yrs=Low, 5-10 yrs=Average, >11 yrs=High					X	
c) The corporation's possibilities of recruiting qualified staff					X	
Staff mix by function and related relevant training/education		Optimum staff mix for this corporation		Current staff mix in this corporation		
Administration/finance department		number		number	Comments	
Office assistants and technical assistants		2		2		
Bookkeepers and other accounting staff		2		2		
Secretaries						
Finance directors and controllers		1		1		
Personnel staff						
HR manager		1				
IT manager						
Top executives		1		1		
Production department						
Unskilled workers, delivery men and others						
Skilled artisans and other skilled workers		60		60		
Servicepeople and fitters		3		2		
Works managers/workmen		7		6		
Engineers and technicians		1				
Production manager		1		1		
Product development and research staff						
Sales and purchasing department						
Salespeople		2		1		
Sales manager		1		1		
Purchasers						
Purchase manager		1				
Marketing manager		1				
Product and market development staff						
Score		84	92%	77		
d) Staff mix by reference to the optimum staff mix						X
Further training/education		Optimum staff mix for this corporation		Current staff mix in the corporation		
In-house courses for the staff		1			Comments	
External courses for the staff		1				
Influence on own training process		1				
Availability of career planning activities for the staff		1				
In-house training of own future executives		1				
On-the-job training		1		1		
Score		6	17%	1		
e) Availability of further training/education - internally and externally?					X	
Staff competence level		Optimum skills for this corporation		Current skills of the staff		
Good technical skills		1		1	Comments	
Good sales proficiencies		1		1		
Good IT proficiencies		1				
Customer service abilities		1		1		
Ability to work across the organization		1		1		
Ability to work in teams		1		1		
Score		6	83%	5		
f) The staff competence level is?						X
Management		Competent management is characterized by		This corporation is characterized by		
"Visible" and performance-oriented managers		1		1	Comments	
Management's staff motivation skills		1		1		
Inclusion of selected staff in the management team		1		1		
Creation of corporate image/spirit		1				
Score		4	75%	3		
g) The level of "competent" management in the enterprise is?						X
Total:				1	22.86	34.29
Total human resources (max 80 points)					58	Points

Table 4

Table 5: Estimation of duration as a weighted average of the 4 elements			
Total duration	Weight	Points	Duration
1. The corporation's products	30%	15,00	4,50
2. The corporation's market position	30%	19,72	5,92
3. The corporation's productive equipment	15%	32,00	4,80
4. The corporation's human resources	25%	58,15	14,54
Total (weighted average)	100%		7,44

Table 5

Form A) Value of the activity:

Net present value (NPV) of the cash flow = Goodwill		
NPV of cash flow in year	1- 5	25.437
NPV of cash flow in year	6- 7	6.752
NPV of cash flow in year	11-	0
NPV of cash flow in year	16-	0
Goodwill at January 1, 2001		32.189

Value of the activity:

Value of the assets	62.000
Goodwill	32.189
Total value of the activity	94.189

Form A illustrates the total value of the business activity. This model is based on a number of assumptions, which are reflected in Forms B and C.

Form B illustrates the depreciation/amortization resulting from the acquisition of the activity as well as the financing cost resulting from the acquisition of assets and goodwill. Depreciation/amortization is classified by type due to differences as to periods and rates. Rates and periods vary and are based on normal depreciation for operating purposes: 2-5% for properties/buildings and 20-30% for machinery. Amortization of goodwill follows the duration of the budget period for both operating and tax purposes. Depreciation for tax purposes is illustrated next to the depreciation for operating purposes to show the difference between the depreciation for operating and tax purposes and to be able to make adjustments, if necessary, in Form F.

Form C shows the value drivers comprised by the model. The most important value drivers are the duration, the growth and - not least - the discount rate. It is very important to estimate these value drivers due to their considerable impact on the value.

Form D illustrates the expected operating budget, prepared on the basis of the budget assumptions and a thorough analysis of the activity and the estimated assumptions in Form C.

Form E illustrates the "saved expenses", the "additional expenses" and the excess earnings expected to result from the acquisition of the activity. As this amount will be split by the seller and the purchaser as per agreement in the first years following the transaction, the synergies cannot be included for more than 5 years. The split is reflected in Form C.

Form F illustrates the cash flow which is a result of the sum of Forms D and E and the amortization of goodwill, due to the fact that the amortization does not affect the liquidity of the corporation. Any major differences between the depreciation of property for tax and operating purposes may be adjusted in Form F. Finally, the time value of the discount rate is illustrated as well as the time value of the cash flow.

Form G illustrates the investor's pay-back period on the assumption that the entire investment is financed through loan capital and that the cash flow is used to pay back the debt. The pay-back concerns goodwill only.

Form B) Depreciation/amortization assumptions:

Analysis of cost:	Depreciation/amortization for operating purposes and financing cost:			Depreciation for tax purposes:	
	Value	Rate	Amount	Rate	Amounts in DKK'000
DKK'000					
1. Properties/buildings	10.000	2%	200	5%	500
2. Land (*)	1.000	-	-	0%	-
3. Machinery and operating equipment (**)	6.000	20%	1.200	30%	1.800
Total value of assets	17.000	7.5%	1275		
Current assets (inventories, etc.)	45.000	7.5%	3.375.0		
4. Goodwill(***)	32.189	14.29%	4.598		
Financing of goodwill	32.189	7.5%	2.414	14.29%	4.600

(*) Land is not depreciated.

(**) Machinery and operating equipment is valued/traded at the current market value and depreciated over their expected residual life.

(***) Goodwill is estimated via interpolation once all other data are known.

The depreciation of properties, machinery, and operating equipment is assumed, in the long term, to match the investments needed to maintain the assets.

Form B

Form C) General assumptions:

Estimated duration in years (variable)	7	The duration is variable between 1-20 years. Amortization of goodwill must match the duration.
Growth/inflation	3%	Estimated growth rate: the rate used to extrapolate the operating budget and synergies.
Tax	0%	Is set at 0% as goodwill is fully deductible for tax purposes for the purchaser: the seller pays tax on goodwill sold.
Discount rate	12%	The after-tax rate used to estimate the NPV of the cash flow. The discount rate reflects the investor's expected, required after-tax yield on the investment.
Seller's share of synergies	50%	Duration with regard to synergies 4 years
Interest rate after tax	5.1%	Used in Form G to illustrate the pay-back period.

Form C

Form D) Operating budget:												
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Budget	Budget
Net sales	137,707	141,838	146,093	150,476	154,990	159,640	164,429	169,362	174,443	179,676		
Cost of sales	109,534	112,820	116,205	119,691	123,281	126,980	130,789	134,713	138,754	142,917		
Gross profit	28,173	29,018	29,889	30,785	31,709	32,660	33,640	34,649	35,689	36,759		
Overheads	14,985	15,435	15,898	16,375	16,866	17,372	17,893	18,430	18,983	19,552		
Income/(loss) before deprec./amort.	13,188	13,584	13,991	14,411	14,843	15,289	15,747	16,220	16,706	17,207		
Depreciation of properties	200	200	200	200	200	200	200	200	200	200		
Depreciation of machinery/op. equipment	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200		
Amortization of goodwill	4,598	4,598	4,598	4,598	4,598	4,598	4,598	4,598	4,598	4,598		
Income/(loss) before financing inc./exp.	7,190	7,585	7,993	8,412	8,845	9,290	9,749	10,220	10,706	11,207		
Financing cost, current operations	3,375	3,375	3,375	3,375	3,375	3,375	3,375	3,375	3,375	3,375		
Financing cost, fixed assets	1,275	1,275	1,275	1,275	1,275	1,275	1,275	1,275	1,275	1,275		
Financing cost, goodwill	2,414	2,414	2,414	2,414	2,414	2,414	2,414	2,414	2,414	2,414		
Pre-tax income/(loss)	125	521	929	1,348	1,781	2,226	2,685	3,170	3,656	4,157		
Tax adjustments	-	-	-	-	-	-	-	-	-	-		
Tax for the year	-	-	-	-	-	-	-	-	-	-		
Operating income/(loss)	125	521	929	1,348	1,781	2,226	2,685	3,170	3,656	4,157		

Form D

Form E) Synergies:					
Year	2001	2002	2003	2004	2005
A. "Saved expenses":					
-rent/overheads	120	124	127	131	135
-management expenses	0	0	0	0	0
- administrative expenses	100	103	106	109	113
- selling expenses	0	0	0	0	0
Total:	220	227	233	240	248
B. "Additional expenses":					
-rent/overheads	50	52	53	55	56
-management expenses	0	0	0	0	0
- administrative/selling expenses	0	0	0	0	0
Total:	50	52	53	55	56
C. Additional earnings from synergies:					
- image synergies	500	515	530	546	563
- additional sales	1,000	1,030	1,061	1,093	1,126
- purchase synergies	2,000	2,060	2,122	2,185	2,251
- financing	0	0	0	0	0
Total:	3,500	3,605	3,713	3,825	3,939
Total net adjustments:	3,670	3,780	3,894	4,010	4,131
Tax	0	0	0	0	0
Net adjustments after tax:	3,670	3,780	3,894	4,010	4,131

Form E

Form F) Cash flow from operations, synergies, goodwill and depreciation, if any, of properties:											
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	
Operating profit	125	521	929	1,348	1,781	2,226	2,685	10,170	10,656	11,157	
Seller's share of synergies	1,835	1,890	1,947	2,005	0	-	-	-	-	-	
Amortization of goodwill	4,598	4,598	4,598	4,598	4,598	4,598	4,598	-	-	-	
Adjustments of depreciation of properties											
Cash flow	6,559	7,010	7,474	7,952	6,379	6,824	7,283	10,170	10,656	11,157	
Discount rate (time value)	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066	0.4523	0.4039	0.3606	0.3220	
NPV of cash flow	5,856	5,588	5,320	5,054	3,620	3,457	3,294	4,107	3,843	3,592	

Form F

Form G) Investor's cash flow/yield/pay-back period:											
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
	1	2	3	4	5	6	7	8	9	10	
Investment in goodwill	(32189)										
Interest on the investment after tax	(1642)	(1642)	(937)	(171)	661	1563	2329	3156	4048	5010	
Pre-tax cash flow	15458	15964	15964	16485	17021	13443	13889	14347	14820	15306	
Net cash flow at beginning of year	(32189)	13816	15027	16314	17683	15006	16217	17503	18868	20317	
Net cash flow as a % of Initial Investment	0	0	0	1	1	0	1	1	1	1	
Residual debt	(32189)	(18372)	(3346)	12968	30651	45657	61874	79377	98245	118562	
NPV of the net cash flow	(32189)	12336	11979	11612	11238	8515	8216	7917	7620	7326	
Pay-back of the investment in NPV	(32189)	(19853)	(7873)	3739	47165	43344	39581	35886	32269	31080	

Form G